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ACTION EUR-12

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INFO USMISSION EC BRUSSELS

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SUBJECT: GREECE AND THE EUROPEAN COMMUNITY: AN INTERIM REPORT

REF: A. ATHENS A-51; B. 76 ATHENS 10233; C. 76 EC BRUSSELS

11269; D. ATHENS 181; E. ATHENS 567

1. FOLLOWING ARE SUMMARY AND CONCLUSIONS FROM ATHENS A-51, WHICH IS EN ROUTE.

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2. NEGOTIATIONS ON THE TERMS FOR GREECE'S ACCELERATED ACCESSION TO THE EUROPEAN COMMUNITY, WHICH BEGAN OFFICIALLY IN JULY 1976, ARE NOW WELL UNDERWAY. THE GREEKS HAVE MADE PROGRESS IN GEARING UP THEIR TRADITIONALLY CUMBERSOME BUREAUCRACY TO HANDLE BOTH THE NEGOTIATIONS AND THE ECONOMIC ADJUSTMENTS THAT FULL MEMBERSHIP WILL BRING. COORDINATION MINISTER PAPALIGOURAS, THROUGH A LAW PASSED LAST FALL (REF B), WAS DELEGATED ULTIMATE

AUTHORITY OVER THE NEGOTIATIONS, WHILE EACH RELEVANT MINISTRY HAS NOW ESTABLISHED ITS OWN OFFICE TO DEAL WITH EC QUESTIONS. FULL-DRSS PARLIAMENTARY DEBATE OVER ENTRY NEGOTIATIONS, PRECIPITATED EARLIER THIS YEAR BY THE RESIGNATION OF TWO MEMBER OF THE FIVE MAN GREEK NEGOTIATING TEAM (REFS D AND E) HAS, IF ANYTHING, STRENGTHENED THE GOVERNMENTS POSITION. THE ONLY TWO PARTIES OPPOSING ENTRY, PASOK AND THE MOSCOW-ORIENTED KKE (EXTERIOR), WERE ISOLATED, AND THE GOG CLARIFIED ITS PRIORITIES AND NEGOTIATING TACTICS, WHICH RECEIVED OVERWHELMING PARLIAMENTARY SUPPORT.

3. WITH RESPECT TO THE TIME SCHEDULE, THE GOG HAS MADE IT A POLITICAL IMPERATIVE TO PRESS FOR THE EARLIEST POSSIBLE ACCESSION, FOLLOWED BY A TRANSITION PERIOD OF FIVE YEARS TO ENABLE FULL ADJUSTMENT TO EC RESPONSIBILITIES AND COMPETITION. GREEK POLICYMAKERS HOPE TO COMPLETE NEGOTIATIONS BY MID-1978 (I.E. BEFORE NEW ELECTIONS ARE DUE), WITH FULL MEMBERSHIP RATIFIED BEFORE THE END OF 1979. RECENT HIGH LEVEL FRENCH STATEMENTS (SEE ATHENS 2261, BRUSSELS EC 2399, AND PARIS 7292), MAY PRESAGE SECOND THOUGHTS BY GREECE'S MAJOR SUPPORTER ABOUT THE TIMING OF COMMUNITY EXPANSION IN LIGHT OF INTEREST IN MEMBERSHIP BY SPAIN AND PORTUGAL. FOLLOWING THE APRIL MINISTERIAL MEETING, HOWEVER, GOG OFFICIALS EXPRESS BELIEF THAT THEY HAVE ASSURANCES THAT THE GREEK NEGOTIATIONS CAN AND WILL PROCEED AT THEIR OWN PACE.

4. WITH RESPECT TO PROBLEMS OF ECONOMIC ADJUSTMENT, THE GREEKS POINT OUT THAT THE EC AS IT EXISTS TODAY HAS LITTLE RESEMBLANCE TO THE ORGANIC COMMUNITY ENVISAGED IN THE TREATY OF ROME. GREECE IS LIMITED OFFICIAL USE

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NEGOTIATING FOR MEMBERSHIP IN THE ACTUAL COMMUNITY OF NINE MEMBERS, EACH WITH ITS OWN SENSITIVE REGIONS OR SECTORS FOR WHICH EXCEPTIONS HAVE BEEN MADE. THUS, THE GOG BELIEVES THAT ITS ENTRY CAN BE ACCOMMODATED WITHOUT CHANGING THE NATURE OF THE COMMUNITY AS IT HAS EVOLVED, AND EMPHASIZES THAT GREECE WILL NOT SEEK DEROGATIONS FROM EC RULES DISSIMILAR TO THOSE GRANTED TO OTHER MEMBERS.

5. THE MAJOR ECONOMIC BENEFIT FOR GREECE, AND THE PRIMARY COST FOR THE COMMUNITY, AT LEAST IN THE BEGINNING, IS LIKELY TO BE BUDGETARY. BEFORE ACCESSION, THE ONLY ECONOMIC ASSISTANCE GREECE WILL RECEIVE FROM THE EC IS CONTAINED IN THE SECOND FINANCIAL PROTOCOL, WHICH WAS SIGNED IN FEBRUARY (SEE BRUSSELS EC A-80). FOLLOWING ACCESSION, GREECE WILL BE ELIGIBLE FOR THE AGRICULTURAL GUARANTEE AND GUIDANCE FUND AND THE REGIONAL DEVELOPMENT FUND (RDF); THE GOG HAS ASKED THAT ALL OF GREECE BE CONSIDERED ELIGIBLE FOR RDF SUPPORT. THE COMMISSION LAST YEAR OFFERED, ONLY AS AN ILLUSTRATIVE ESTIMATE, A 300 MILLION UNIT-OF-ACCOUNT (MUA) NET INCREASE IN EC BUDGETARY EXPENDITURES (OR AROUND FIVE PERCENT OF THE 1976 EC BUDGET). REGARDING ITS OWN CONTRIBUTION

TO THE EC BUDGET, GREECE REQUESTED A FIVE YEAR TRANSITION PERIOD BEFORE FULL PARTICIPATION, BUT THIS REMAINS A SUBJECT OF NEGOTIATION (SEE BRUSSELS 3512).

6. ACCORDING TO A MEMBER OF THE GREEK NEGOTIATING TEAM, GREECE HAS NOW PRESENTED POSITION PAPERS ON ALL MAJOR ISSUES EXCEPT ESTABLISHMENT LAW AND CAPITAL TRANSFERS, I.E. FOR AGRICULTURE, COMMERCIAL POLICY, ECSC, REGIONAL DEVELOPMENT, AND BUDGETARY CONTRIBUTIONS. THE EC HAS REPLIED TO THE PAPERS ON BUDGETARY CONTRIBUTIONS (SEE ABOVE) AND COMMERCIAL POLICY. REGARDING THE LATTER, THE MAIN OUTSTANDING ISSUE IS GREECE'S ADJUSTMENT TO THIRD-COUNTRY PREFERENTIAL TRADE AGREEMENTS. GOG OFFICIALS PRIVATELY INDICATE THAT THEY HOPE TO USE THE WHOLE NEGOTIATING PROCESS AS A WAY TO EASE INTRODUCTION OF DESIRED DOMESTIC REFORMS -- E.G., IN THE TAX SYSTEM AND IN AGRICULTURE -- BY PRESENTING THEM TO PUBLIC OPINION AS A NECESSARY CONCOMITANT TO THE LIMITED OFFICIAL USE

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BROADLY ACCEPTED POLITICAL OBJECTIVE OF EC MEMBERSHIP.

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7. AGRICULTURE: THE GOG RECOGNIZES THAT THE AGRICULTURAL SECTOR WILL HAVE TO UNDERGO FUNDAMENTAL CHANGES IN CONNECTION WITH EC ACCESSION, AND THAT IT MAY BE FACED WITH HARD DECISIONS SINCE IT DERIVES SUBSTANTIAL POLITICAL SUPPORT FROM THE RURAL POPULATION. NEVERTHELESS, OFFICIALS FEEL THAT ON BALANCE GREEK AGRICULTURE WILL BENEFIT FROM EC MEMBERSHIP. PROBLEM AREAS INCLUDE THE GREEK SYSTEM OF SUBSIDIES AND PRICE SUPPORTS, AGRICULTURAL PRODUCTIVITY, AND INFRASTRUCTURE AND MARKETING. LARGELY BECAUSE OF FRAGMENTED LAND HOLDINGS, GREECE IS A RELATIVELY HIGH-COST PRODUCER OF AGRICULTURAL GOODS, AS EVIDENCED BY THE NEED TO SUBSIDIZE MOST

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AGRICULTURAL EXPORTS. LACK OF ADEQUATE INFRASTRUCTURE IS A RELATED PROBLEM, SINCE LARGE-SCALE IRRIGATION, USE OF CERTAIN TYPES OF FARM MACHINERY AND TECHNIQUES, AND WELL-ORGANIZED MARKETING SYSTEMS ARE EASIER TO INSTITUTE WHEN FARMS ARE LARGE. THROUGH VARIOUS PROGRAMS, THE AUTHORITIES ARE BEGINNING EFFORTS TO ENCOURAGE LAND CONSOLIDATION AND IMPROVE DISTRIBUTION, STANDARDS, AND INFRASTRUCTURE, PARTICULARLY IRRIGATION.

8. WITH REGARD TO SPECIFIC COMMODITIES, BEEF, PORK, AND DAIRY PRODUCTS WILL ENCOUNTER THE GREATEST DIFFICULTIES, ALTHOUGH SOME PROBLEMS WITH RESPECT TO EGGS, WINE, TOBACCO, OLIVE OIL, AND CERTAIN FRESH FRUITS ARE ALSO ANTICIPATED. SINCE GREEK PRODUCTION, EXCEPT FOR A FEW COMMODITIES, IS USUALLY A SMALL PERCENTAGE OF TOTAL EC CONSUMPTION, THE EC SHOULD BE ABLE TO ADJUST TO GREEK ENTRY WITH MINIMUM DIFFICULTY. HOWEVER, PARTICULARLY IN AGRICULTURE, SOLUTIONS FOR GREECE WILL SET PRECEDENTS FOR SUBSEQUENT AGREEMENTS WITH SPAIN AND PORTUGAL, AND THE EC POSITION WILL CERTAINLY BE FORMULATED WITH THIS IN MIND. THE NEGOTIATIONS WILL ALSO NEED TO RESOLVE COMPETITIVE PROBLEMS WITH COUNTRIES ENJOYING SPECIAL ARRANGEMENTS WITH THE EC-- E.G. LOME CONVENTION COUNTRIES, EFTA, ISRAEL, THE MAGHREB.

9. FISCAL ADJUSTMENTS: FISCAL REFORM IS ESSENTIAL FOR GREECE TO QUALIFY FOR THE EC SYSTEM OF INVESTMENT INCENTIVES: THE GOG MUST LARGELY REPLACE ITS CURRENT SYSTEM OF TAX CONCESSIONS WITH DIRECT GRANTS, WHICH MUST IN TURN BE SUPPORTED BY HIGHER BUDGETARY REVENUES. GREECE CURRENTLY DERIVES MOST OF ITS REVENUE FROM A COMPLICATED STRUCTURE OF INDIRECT TAXES, OF WHICH THE MOST IMPORTANT (30 PERCENT) IS

THE STAMP TAX. ADAPTION OF GREECE'S FISCAL STRUCTURE TO THE VALUE ADDED TAX (VAT) SYSTEM WILL REQUIRE DIFFICULT ADJUSTMENTS, AND WILL CERTAINLY BE INFLATIONARY AT FIRST. IN THE LONG RUN, HOWEVER, THE VAT SHOULD BENEFIT GREECE BY FACILITATING TAX COLLECTION AND DISTRIBUTING TAX BURDENS MORE EQUITABLY. GREECE WILL CERTAINLY ASK FOR A PROTRACTED TRANSITION PERIOD IN THIS AREA.

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10. INDUSTRY: THE ABILITY OF GREEK INDUSTRIAL FIRMS TO COPE WITH FULL EC MEMBERSHIP WILL VARY WIDELY ACCORDING TO THEIR EFFICIENCY, CURRENT TARRIF PROTECTION, AND THE SPECIAL INCENTIVES THEY NOW ENJOY. ALTHOUGH ALL GREEK EXPORTS TO THE EC, AND ABOUT TWO THIRDS OF EC EXPORTS TO GREECE, ARE NOW DUTY FREE, THE DUTIES THAT REMAIN PROVIDE SUBSTANTIAL PROTECTION FOR MANY IMPORTANT LOCALLY-PRODUCED INDUSTRIAL PRODUCTS, AND GREECE ALSO MAINTAINS HIGH TARRIFS ON CERTAIN THIRD-COUNTRY PRODUCTS. THE TEXTILE, SHOE AND CEMENT INDUSTRIES ARE RELATIVELY STRONG, WHEREAS FOOD PROCESSING, AND TO SOME EXTENT IR ON

AND STEEL, OPERATE WITH HIGH COSTS AND COMPARATIVELY LOWER STANDARDS. INDUSTRY WILL ALSO BE AFFECTED BY CHANGES IN INVESTMENT AND REGIONAL DEVELOPMENT INCENTIVES, ENVIRONMENTAL POLICY, BANKING AND INSURANCE, CURRENCY CONTROL REGULATIONS, AND ESTABLISHMENT RIGHTS. GREECE'S DEVELOPMENT PLANS WILL ENCOURAGE LARGER SCALE UNITS, EXPORT-ORIENTED WHERE POSSIBLE, AND GREATER EXPLOITATION AND VALUE-ADDED IN DOMESTIC MINERAL RESOURCES.

11. IMPLICATIONS FOR UNITED STATES: SINCE THE PARAMETERS OF GREECE'S ACCESSION REMAIN TO BE DEFINED, IT IS STILL EARLY FOR ANALYSIS OF PRECISE IMPLICATIONS FOR THE US. FROM THIS VANTAGE POINT, IT APPEARS SAFE TO PREDICT THAT, AS WAS THE CASE WITH OTHER EC MEMBERS, ANY SHORT RUN DISLOCATIONS FOR PARTICULAR U.S. EXPORTS WILL BE MORE THAN COMPENSATED FOR BY THE POSITIVE IMPLICATIONS OF A GENERAL LONGER TERM EXPANSION OF THE GREEK ECONOMY. GREECE'S ATTRACTIVENESS FOR US INVESTMENT SHOULD BE ENHANCED AS IT BECOMES AN INTEGRAL PART OF THE COMMON MARKET, ADDING TO THE ADVANTAGES OF A RELATIVELY SKILLED AND LOW COST LABOR FORCE AND GROWING COMMERCIAL ROLE IN MIDDLE EASTERN MARKETS (SEE ATHENS 3145).

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